

## LFC HEARING BRIEF

**AGENCIES:** General Services Department, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools

**DATE:** July 11, 2014

**PURPOSE OF HEARING:**  
Review of employee group health benefits and risk management programs

**WITNESS:** AJ Forte, Director, Risk Management Division, GSD, Sammy Quintana, Director, Christy Edwards, Deputy Director, NMPSIA, Vera Dallas, Director, Employee Benefits, Mike Wilson, Director, Risk Management, APS, (invited Ed Burckle, Secretary, GSD)

**PREPARED BY:** Anne Hanika-Ortiz, LFC analyst

**EXPECTED OUTCOME:**  
Informational

### Group Benefits Membership

GSD	64,946
NMPSIA	53,956
APS	17,792

Source: LFC Files

According to the National Conference of State Legislatures, nationwide, on average 8 percent of state health budgets cover employees:

72% Medicaid; 2% CHIP  
1% Higher Ed; 1% Corrections  
5% Community-based services  
5% Public health services

Because of declining enrollment due to a smaller workforce, the state might benefit from consolidation of its various employee group insurance plans to reduce duplicative administrative costs and provide a more equitable benefit.

### BACKGROUND INFORMATION

The General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA) and Albuquerque Public Schools (APS) administer self-insurance plans for schools, state agencies and participating local public bodies for employee health, workers' compensation and unemployment benefits, and for property and casualty exposure. The three agencies provide benefits for about 140 thousand public employees and dependents. For FY14, combined spending was \$600 million for employee health and over \$200 million for risk. The three agencies employ close to 90 FTE at a cost of about \$7 million in personal services and employee benefits.

### COST SAVINGS OPPORTUNITIES FOR GROUP HEALTH PLANS.

Collectively GSD, NMPSIA, APS and New Mexico Retiree Health Care Authority (RHCA) form the Interagency Benefits Advisory Committee (IBAC), the largest health care purchaser in New Mexico. The committee was created by the Health Care Purchasing Act to consolidate the purchasing of health insurance for public employees and retirees. Public meetings occur monthly between the executive directors and insurance carriers and consultants to discuss, among other current issues, payment alternatives to fee-for-service that reward the delivery of high-quality, cost-effective care. GSD, the largest of the four agencies, sends staff persons with limited decision-making authority which minimizes the effectiveness of the group.

*Health plan eligibility.* APS requires a 30 hour work week to qualify for group benefits; GSD has a 20 hour minimum and is not proposing increasing eligibility; and NMPSIA has a 20 hour minimum but will allow coverage for as few as 15 hours if requested by a school board. NMPSIA is discussing with schools the impact of increasing eligibility to 30 hours, possibly achieving savings for schools of \$3 million annually. In 2013, approximately 2,000 school employees worked less than 30 hours; of that number, about 800 had health insurance coverage through a NMPSIA plan. Should eligibility be changed, employees who no longer qualify could receive subsidized health coverage through the Marketplace or Centennial Care.

*Employer premium contributions.* The state provides premium subsidies to make coverage more affordable for lower-wage public employees. The employer's cost is spread over a three tier structure, with lower-wage workers paying relatively less than higher-wage workers. The subsidy is based solely on employee income and does not take into account the plan type such as single, single plus spouse/child or family. Of the three, GSD offers the most generous employer contribution at 80 percent, especially for workers earning \$30 thousand to \$50 thousand, while NMPSIA offers the least, especially for lower wage workers (side bar page 2). If the state wants to continue to tie premiums to salaries, a gradual tier system may prevent the

**Premium Contributions****APS**

Salary	Employee (EE)	Employer (ER)
< \$30K	20%	80%
\$30K +	40%	60%

**NMPSIA**

Salary	EE	ER
< \$15K	25%	75%
< \$20K	30%	70%
< \$25K	35%	65%
\$25K +	40%	60%

**GSD**

Salary	EE	ER
< \$50K	20%	80%
< \$60K	30%	70%
\$60K +	40%	60%

disparity employees in some pay bands experience (side bar page 3).

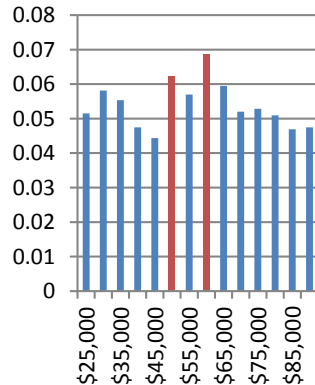
Because salary-based premium contributions fail to consider other household income, such as a spouse's salary, the state may want to consider the merit of varying health premiums only by family size and level of coverage. For example, a 20 percent employer contribution for single coverage not tied to salary and 50 percent for employees with spouse or family coverage if earning \$30 thousand or more. This approach may support the recruitment of highly qualified workers and achieve savings for taxpayers and public employers by reducing subsidies for non-state employees. In any event, funding employee health and other benefits should not be done in isolation as it is now and should be part of an overall compensation strategy.

*Contracts with health plans.* IBAC agencies enter into contracts with the same insurance carriers for provider rate development and claims processing. For medical, GSD has agreements with Lovelace (LHP), Presbyterian (PHP) and Blue Cross Blue Shield (BCBS). NMPSIA has agreements with PHP and BCBS. APS has agreements with LHP and PHP. Since 2010, pharmacy benefits management (PBM) has been provided to the group by Express Scripts, formerly Medco. Two health networks have expressed interest in offering insurance plans to IBAC; Christus St. Vincent's, promoting its own provider network and physician-owned New Mexico Health Connections. The increased competition could lead to quality and process improvements that reduce plan costs and add value to members.

IBAC agencies perform contract oversight, design benefit plans and ensure carriers meet performance guarantees. The carriers, most of which own provider networks, negotiate provider rates by region and demand. In some cases, providers with market power drive higher rates in certain areas. The plans contract separately with third-party-administrators and actuaries for benefits and claims administration, and to develop premiums, project costs and determine reserves. Outsourced claims and eligibility administrators, actuaries and consultants are \$40 million per year for the group; combined with agency FTE expenses, 7 percent of total expenditures. Consolidation might reduce that number to 5 percent, saving over \$10 million, part of which could be used to develop a highly-integrated claims data warehouse.

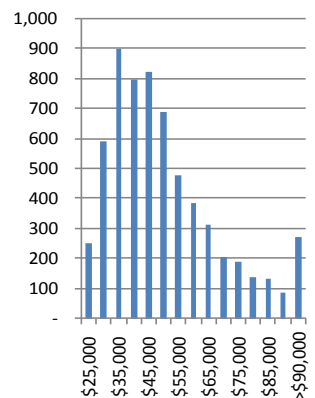
*Medical trends.* Because health claim expenses continue to climb in spite of decreasing enrollment and utilization, LFC staff conducted program evaluations in 2010 and 2013 to assess the role of utilization, provider rates, and other factors that inflate costs for the IBAC, the benefits and barriers of consolidation, and in the 2013 report, the impact of the Affordable Care Act on public employee health care. Study findings included a lack of oversight of provider rates and quality improvement, duplicative and costly administrative functions, and the lack of data warehousing for better claims management. A key recommendation in both reports included the creation of one consolidated health care authority to administer employee benefits.

**GSD Employee  
Premium Contribution  
as Percent of Salary**



Source: LFC files

**Number of GSD Family  
Plans by Income**



Source: LFC files

### REVIEW OF AGENCY PLANS.

*GSD group benefits.* The Group Benefits Act allows GSD to administer group benefits and creates a "Group Benefits Committee" which includes the superintendent of insurance and state personnel director, among others. The committee's duties are to advise the director of GSD's Risk Management Division (RMD) on benefit plans, contracts, regulations, investments and rate setting. The statute does not specify how often the committee meets but is clear what falls under the committee's review. Since the committee has not met in recent years, these oversight functions are not being performed.

Over the past two years, GSD increased employer and employee premiums 25 percent, and implemented significant plan design changes not reviewed by the Group Benefits Committee. In addition, in 2013 the Legislature appropriated \$10 million from the general fund to help the program achieve solvency. The program will propose a 3 percent premium increase for FY16.

**GSD Claims Cost Trend for Medical/Rx**  
(in thousands)

	FY10	FY11	FY12	FY13	FY14
Covered Lives	77,702	76,076	73,983	69,952	64,946
Medical/Rx Claims	\$282,043	\$276,991	\$273,156	\$290,486	\$259,830
Per Member	\$3,630	\$3,641	\$3,692	\$4,153	\$4,001

Source: LFC Files

As reflected in the table above, the total medical claims cost decreased 8 percent since FY10, due to declining enrollment, but costs per member increased 10 percent, or an average of 2 percent per year. This suggests that cost-shifting to manage cost increases has had the desired effect. However, there are limits on an employee's ability to absorb cost increases in years without pay increases, resulting in delays of needed treatment. This means when a member does seek care, they are often sicker and more costly to treat. Delays, then, can raise plan costs over time on a per member basis.

*NMPSIA group benefits.* NMPSIA benefit plans are governed by an eleven-member board that meets monthly. Over the past two years, the board increased medical premiums 10 percent, more than the industry average of 3 percent per year, despite fund balance surpluses. To help pay for health and other benefit increases, the 2013 Legislature provided a 3 percent salary increase for all public employees, including teachers. The net effect is an additional \$50 per month in take-home pay under single coverage and \$41.00 under family coverage, after taxes, if earning \$35 thousand annually.

**NMPSIA Claims Cost Trend for Medical/Rx**  
(in thousands)

	FY10	FY11	FY12	FY13	FY14
Covered Lives	58,037	60,000	58,000	56,000	53,956
Medical/Rx Claims	\$214,545	\$226,661	\$224,917	\$232,806	\$252,032
Per Member	\$3,697	\$3,778	\$3,878	\$4,157	\$4,671

Source: LFC Files

A person working 30 or more hours a week with household income between 100 percent and 400 percent of FPL – between \$11,490 and \$45,960 for one person in 2013 – is eligible for federal subsidies towards Marketplace coverage if not eligible for Medicaid or offered employer coverage that meets the affordability standard.

#### Out-of-Pocket Maximums

	APS	PSIA	GSD
Single	2,250	2,800	3,500
Family	6,750	8,400	10,500

Source: LFC files

#### Comparison of Monthly PPO Option Premiums (earns less than \$50 thousand)

	APS \$	PSIA \$	GSD \$
Single			
EE	222	227	109
ER	332	340	436
<b>Total</b>	<b>554</b>	<b>567</b>	<b>545</b>
Family			
EE	579	577	321
ER	869	865	1,285
<b>Total</b>	<b>1,448</b>	<b>1,442</b>	<b>1,606</b>

Source: LFC files

#### Comparison of PPO Option Deductibles

	APS	PSIA	GSD
Single	250	300	700
Family	750	900	2,100

Source: LFC files

#### Comparison of PPO Option Copays and Coinsurances

	APS	PSIA	GSD
PCP Visit	\$25	\$20	\$30
Specialist	\$40	\$30	\$50
Hospital	20%	\$500+	\$1,000
Outpatient Surgery	20%	\$150+	\$500+
Lab/Xray	20%	20%	20%

Source: LFC files

As reflected on page 3, total medical claims costs for NMPSIA increased 18 percent from FY10 to FY14, despite declining enrollment, yet costs on a per member basis increased 27 percent, on average over 5 percent per year. This finding suggests that price increases, more so than utilization, are driving up costs and supports the argument that medical costs are higher in rural areas.

*APS group benefits.* The APS plans are governed by a seven-member elected school board that meets monthly; one member from each of seven districts. Effective January 1, 2014, the APS board voted to increase medical premiums 5 percent and raise the out-of-pocket maximum employees can pay for medical costs from \$2,000 to \$2,250. Co-pays for provider visits stayed the same, but employees now pay 20 percent of the cost for most other services. These changes brought the APS health plans more in line with the NMPSIA health plans, which was causing a disparity for teachers in Albuquerque charter schools covered under less generous NMPSIA plans.

#### APS Claims Cost Trend for Medical/Rx (in thousands)

	FY10	FY11	FY12	FY13	FY14
Covered Lives	18,163	17,709	17,351	17,434	17,127
*Medical/Rx Claims	\$66,222	\$64,100	\$69,075	\$68,871	\$72,068
Per Member	\$3,646	\$3,620	\$3,981	\$3,950	\$4,208

Source: LFC Files

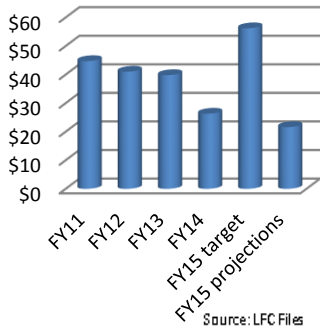
As reflected above, total medical claims costs increased 9 percent between FY10 and FY14 and costs on a per member basis increased 15 percent, on average 3 percent per year, in line with health care inflation rates. The implementation of a wellness program is likely one of the reasons behind the recent increase in per member costs. APS expects that this approach, which drives more people into primary care increasing claims costs initially, to be followed by decreases in future years due to earlier interventions. This expectation highlights the importance of taking a long-term perspective when implementing wellness programs and evaluating their effectiveness.

#### RISK MANAGEMENT PROGRAMS.

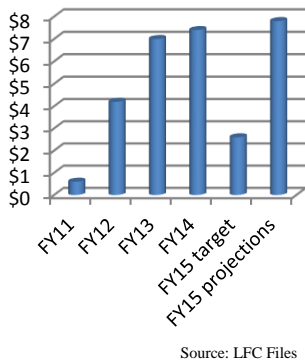
*GSD risk management.* The Risk Management Advisory Board (RMAB) is composed of the Attorney General, Superintendent of Insurance, and Secretary of the Department of Finance and Administration, among others, and is tasked with reviewing insurance policies, professional services contracts, rules and regulations, and certificates of coverage issued by GSD. Again, the statute does not specify how often the board meets but is clear what falls under the board's review. During FY14, the RMAB met twice; meeting more frequently might help GSD build support for new initiatives.

GSD is tasked with setting risk premiums to reflect an agency's five year loss history and exposure to future losses with regards to a particular line of coverage. This should allow agencies to be recognized and rewarded for their efforts in loss prevention and safety. However, some agencies reported the methodology used by GSD's actuaries to apportion their share of premium costs produced inaccurate results. GSD's response has been not all

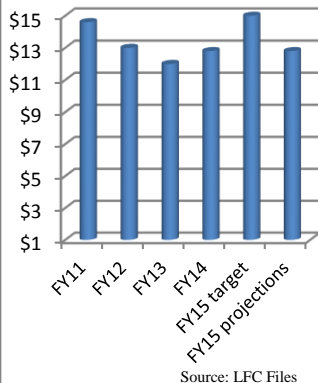
**GSD Public Liability  
Fund Cash Balances**  
(in thousands)



**GSD Public Property  
Fund Cash Balances**  
(in thousands)



**GSD Workers' Comp Fund  
Cash Balances**  
(in thousands)



agencies provided current and accurate information by means of annual exposure surveys which over time had produced inaccurate premiums.

**GSD's Risk Program Legislative Appropriations  
for Workers' Compensation, Liability and Property**  
(in thousands)

FY11	FY12	FY13	FY14	FY15	Five Year Change
\$66,960	\$63,167	\$59,265	\$70,528	\$79,578	19%

Source: LFC files

**GSD Risk Funds Payments**  
(in thousands)

Coverage	FY10	FY11	FY12	FY13	FY14	Five Year Change
Workers' Comp	\$14,152	\$16,014	\$17,423	\$18,687	\$18,155	28%
Property and Liability	\$31,141	\$34,047	\$23,312	\$46,444	\$59,838	92%

Source: LFC files

The tables above do not reflect costs incurred or paid on behalf of children with leukemia allegedly receiving substandard care from the University of New Mexico Hospital. The state is required to pay these settlements because GSD self-insures claims that fall within the Tort Claims Act; they do not purchase excess insurance. Because the hospital agreed to assume the indemnity obligation, GSD will save \$2 million in annual defense costs and the aggregate public liability premium assessment for agencies could be reduced \$10 million. However, overall, GSD's proposed rates for FY16 appear relatively flat and include funding to rebuild fund ratios to 50 percent.

For FY14, GSD increased its budget for the public liability fund \$10 million to pay for losses exceeding budgeted funds. According to the most recent actuarial study, projected losses paid from the fund were \$42 million under a "worst-case scenario"; however, the agency budgeted \$18 million and losses were \$28 million, with several large claims still pending. Overall, payments from the public liability fund increased 35 percent over FY13, with civil rights coverage, including employer liabilities, and professional liability, including law enforcement and medical malpractice, seeing much activity.

*NMPSIA risk program.* All K-12 school districts, except APS, charter schools, board members, employees, volunteers and school bus contractors are covered under policies administered by NMPSIA. The financing method used is a combination of self-insurance up to \$750 thousand per event with excess insurance coverage for larger losses. Recently, the board directed staff to conduct a study with GSD and other risk programs, in particular, of costs as relates to retention, excess insurance, premiums, etc. The board sent a letter in May asking for GSD's cooperation. GSD has not yet responded.



**GSD's Risk Management Advisory Board**

Tom Clifford  
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 Steve French  
 Gary King  
 Raul Burciaga  
 Thomas Turbett  
 Judith Scharmer  
 John Wolfe

**GSD's Group Benefits Committee:**

John Franchini  
 Sanjay Bhakta  
 Eugene Moser  
 Wayne Propst  
 Jennifer Padgett  
 David Holmes  
 Teresa Padilla  
 Loren Hatch

**NMPSIA Board:**

Lowell Irby  
 Jose Cano  
 Mary Parr-Sanchez  
 Tonya Carrell  
 Tim Crone  
 Millie Pogna  
 Marc Space  
 Katherine Ulibarri  
 Robert Lowery  
 Esther Marquez  
 Daniel Patterson

**APS Board of Education:**

Analee Maestas  
 Kathy Korte  
 Lorenzo Garcia  
 Martin Esquivel  
 Steven Michael Quezada  
 Don Duran  
 David Percy

**NMPSIA School Property Values**

(in millions)

FY10	FY11	FY12	FY13	FY14	Five Year Change
\$11,856,761	\$13,398,140	\$15,139,898	\$16,956,686	\$18,143,654	53%

Source: LFC files

Premium computation is a combination of many factors, including changes in exposure, such as property values and number of employees, recent loss experience and proximity to services such as police and fire departments.

**NMPSIA's Risk Program Legislative Appropriations for Workers' Compensation, Liability and Property**

(in thousands)

FY11	FY12	FY13	FY14	FY15	Five Year Change
\$57,343	\$64,065	\$64,626	\$66,388	\$69,187	21%

Source: LFC files

**NMPSIA Risk Program Payments**

(in thousands)

Coverage	FY10	FY11	FY12	FY13	FY14	Five Year Change
Workers' Comp	\$13,105	\$13,149	\$13,236	\$13,614	\$14,884	14%
Property & Liability	\$7,382	\$12,139	\$13,542	\$12,769	\$15,918	116%

Source: LFC files

For FY14, NMPSIA increased its budget \$8.5 million to pay losses exceeding budgeted funds. Over the past 10 years, legislative appropriations to the program increased on average 6 percent per year. However, to hold down costs for schools, NMPSIA kept premiums flat for five of those years. Complicating matters further, school property values tripled, from \$6 billion to \$18 billion. In addition, the number of school districts and charter schools almost doubled, from 99 to 191, and school payrolls increased 6 percent on average, corresponding to growth in student enrollment. Overall, losses paid over the past 5 years increased on average 10 percent per year, with roof claims caused by rain and hail, interior damage caused by rain and broken pipes, ergonomic claims and sexual molestation claims driving increases.

*APS risk management.* APS is also self-insured for workers compensation, property and casualty exposures. Although self-insured, APS has insurance for large claims in excess of a self-insured retained limit, the same approach as NMPSIA. Since January of 2012, the district's liability and property claims have been self-administered with its own staff. Prior to that, claims were handled by third party administrators. Since then, claim volume has been consistent and costs have increased only proportionally to inflation.